great places

Revised **Business Plan**

2020/21

Issued September 2020

Great homes. Great communities. Great people.

Contents

If you have any questions on the business plan, please contact Kal Kay, Director of Finance, on **0161 447 5029** or at **kal.kay@greatplaces.org.uk**

Executive Summary

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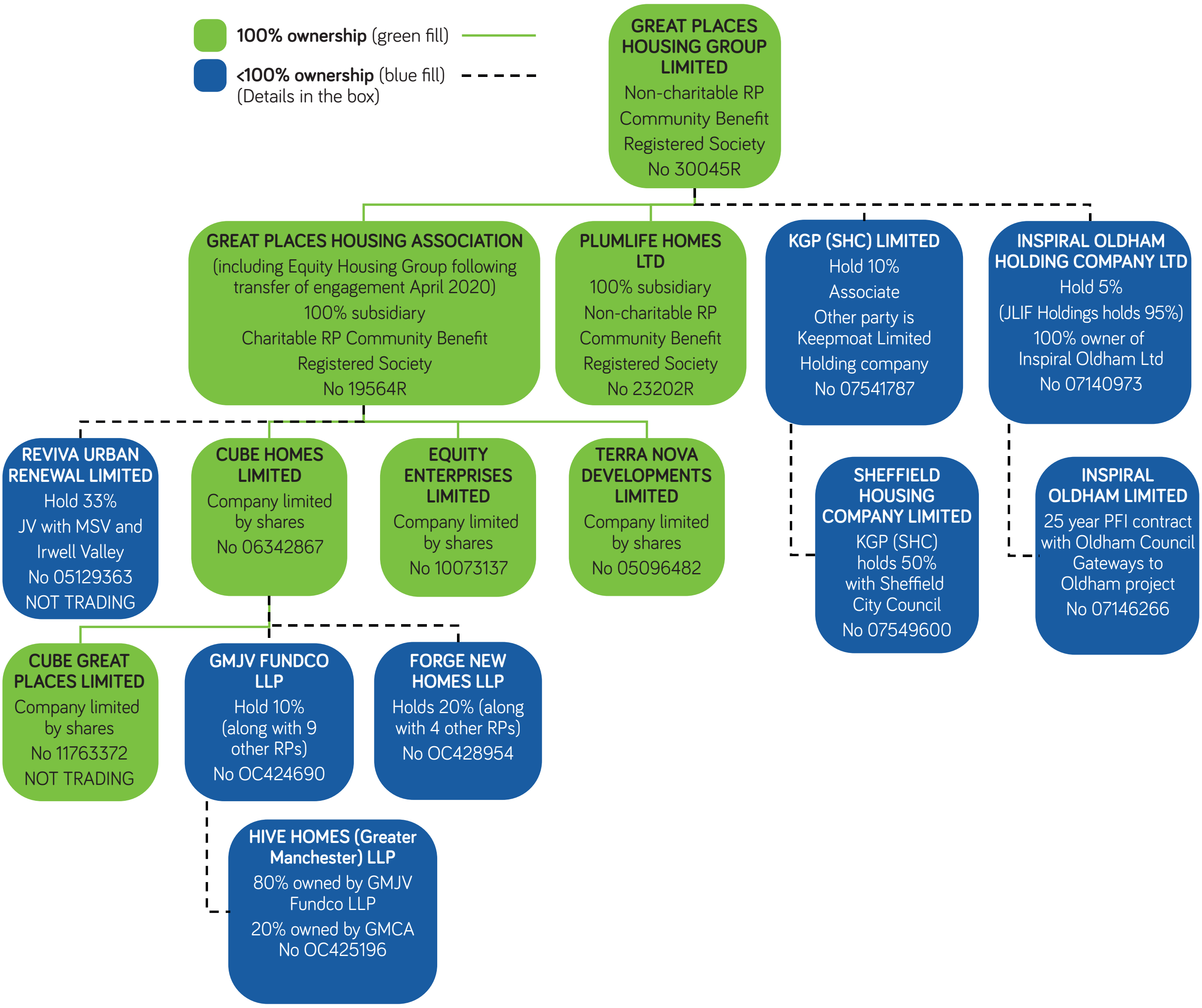
1.1 The Great Places Housing Group Board is pleased to present a revised business plan for 2020/21 and beyond that maintains the financial strength and long term viability of the Group and also reflects many of the ambitions outlined in the Corporate Plan. It was acknowledged when the original business plan was approved in April 2020 that a revised plan would be produced to reflect the known effects of COVID-19. This plan encompasses all of the activities of Great Places Housing Group and the former Equity Housing Group, which transferred its engagements into Great Places Housing Association on 1 April 2020. The group structure is illustrated in the following chart.



1.2. The business plan has been revised taking into account the known impacts of the Coronavirus pandemic around development delays and the resultant impact of sales, on our investment programme and on other areas of operational performance. Clearly the longer term impacts of COVID-19 on the worldwide economy, let alone Great Places' cash, financial performance, the housing market, the supply chain, colleagues and customers is one that at present we cannot predict, although we have attempted a thorough stress testing exercise for this scenario.

1.3. The business environment and wider challenges are likely to continue to be extremely dynamic over the coming months. We will continue to regularly re-forecast throughout the financial year and report any potential deviations from plan as they occur.

1.4 **This new and fully updated plan:**

- ✔ Confirms compliance with the Regulator of Social Housing's (RSH) Governance and Financial Viability standard;
- ✔ Complements and provides resources to meet the 10 year ambitions in our Corporate Plan;
- ✔ Reflects the costs of integration and subsequent efficiency savings as a result of the Transfer of Engagements of Equity Housing Group, in line with the Business Case approved by Board;
- ✔ Demonstrates continuing financial strength and additional financial capacity whilst achieving the revised ambitious development-led growth of 11,000 new homes over the next 10 years;
- ✔ Reflects revised golden rules as a result of negotiation of covenants with funders; and
- ✔ Continues to adopt a suite of prudent yet realistic assumptions.

1.5 The contextual analysis that follows in section 2 shows that we are still operating in a period of unprecedented uncertainty and change, even before the pandemic. The business plan has been prepared taking into account some of this changing and uncertain environment, and those uncertainties have been tested to ensure that Board are aware of any vulnerabilities within the plan.

1.6 The plan meets all golden rules and covenants for the length of the plan. Headroom against the golden rules are shown in the table at the foot of this page, against the results from the plan approved in April.

1.7 We completed 23 different sensitivity tests and calculated their potential impact on our covenants and golden rules which includes testing the standard economic assumptions, as well as sensitivities relating to our top corporate risks. The sensitivity analysis performed on the new plan has demonstrated that the key sensitivities to the achievement of our golden rules are:

- » an increase in margins on future borrowings of 2% (impact year 11)
- » property values falling by 20% for both shared ownership and outright sales (impact year 9)
- » any significant fraud, financial loss or one off shock in the region of £8m (impact year one)
- » a rent freeze from 2021 for a period of five years (impact year 9), or worse a rent cut of 1% which would impact golden rules in year six

1.8 The numerous stress testing scenarios performed on the plan has outlined that the perfect storm is a property market collapse, but the impact is in the medium term giving plenty of time to enact mitigation strategies. A second wave of coronavirus however, while it doesn't break the plan necessarily, does require more immediate intervention. Having lived through it for the past six month we know that changes in guidance and legislation are likely to be the drivers of changes in working practices, but the deferral of works is certainly a viable option. Further detail on this can be found at in Appendix C.

1.9. In the majority of the stress tests it's our unencumbered stock position, and therefore our ability to secure new funding which is a common constraint. There are a number of mitigations which could be employed in all other stress events and even if Great Places found itself in that perfect storm, the analysis shows that the recovery is achievable with covenants not being breached. Because of the permanent controls and range of mitigations which can easily be put in place, there would be time to enact recovery plans as none of the covenants are breached, and the Board are clear on which decisions management would take and which decisions would require further oversight and scrutiny.

1.10 The base case assumptions are provided at Appendix A with details around the underlying economic assumptions and this appendix also provides detail around development units and tenure mix.

	Baseline			
	Golden Rule	Worst Result	When	Headroom
Gearing	Less than 55.0%	Was 48.0% Now 48.2%	Year 9	Was £217.1m Now £210.5m
EBITDA MRI	More than 125.0%	Was 132.7% Now 148.0%	Year 1	Was £3,989k Now £7,000k
Operating margin	More than 25%	Was 28.5% Now 29.4%	Year 2	Was £5,592k Now £7,278k

Purpose and context

2

REGULATION

2.1. The business plan, stress testing and recovery plans are key factors in meeting the RSH Governance and Financial Viability standard. The expectation is that Boards fully understand and take ownership of their organisation's stress testing and that Boards understand the impact of economic cycles as well as one-off shocks on their businesses. This plan helps demonstrate how the Group complies with this RSH Standard and shows the expected performance against a number of the RSH Value For Money metrics.

2.2. Great Places last went through an In Depth Assessment (IDA) in 2018 and was confirmed as G1/V1, which was subsequently reaffirmed in December 2019. The Regulator has committed to carrying out IDAs on the largest and most complex providers every two years. Generally, the RSH will undertake an IDA after merger activity so it is likely that there will be an IDA in the latter part of 2020 or early 2021 where we hope to again ensure we meet regulatory compliance. The RSH has issued an interim judgment, following the merger with Equity Housing Group and Great Places have been given a G1/V2 rating which RSH feels better reflects the risk profile inherent in the development ambitions of the Group.

2.3. Financial viability is most clearly demonstrated by achievement of, and ongoing improvement in, the key ratios considered by our investors, funders and credit rating agencies, as well as the rating itself. During the last year our ratings with Moody's and Fitch were re-confirmed although Fitch have downgraded the UK sovereign rating as a result of the Coronavirus pandemic which resulted in all of their UK RP ratings, including Great Places, being given a negative outlook.

POLICY ANNOUNCEMENTS

2.4 Shared ownership Right to Buy is proposed to be applied to all rented homes funded under the Government's £12bn Affordable Homes Programme (AHP). This would allow tenants who rent homes built through the new AHP the right to purchase a share of their home. Detail is only now beginning to emerge and therefore it is difficult to quantify any impact.

2.5 The Chancellor announced that he will give an additional £650m in funding to tackle rough sleeping across the country which will buy up to 6,000 new places for people to live and enable a step change in support services.

2.6 There future of the government's manifesto commitment to carry out a 10-year, £3.8bn programme to decarbonise social housing has had very little detail provided but is something that Great Places would be interested in exploring.

2.7 The Social Housing White paper is expected in the Autumn. A Ministry of Housing, Communities and Local Government spokesperson said: "Ensuring greater redress, better regulation and improving the quality of social housing for tenants is a priority for this government. We are going to deliver on a once-in-a-generation opportunity to provide a transformative change for social housing tenants – our Social Housing White Paper is at an advanced stage and we have committed in parliament to publishing later this year." [source Inside Housing]

2.8 The Government also recently started consultation on "Planning for the Future" which proposes reforms of the planning system to streamline and modernise the planning process, bring a new focus to design and sustainability, improve the system of developer contributions to infrastructure, and ensure more land is available for development where it is needed. Consultation ends at the end of October 2020.

2.9 The draft Building Safety Bill is the Government's response to the Grenfell Tower fire and Dame Judith Hackitt's 2018 review of the building industry, "Building a Safer Future." The Bill proposes a wholesale reform of the regulatory system for building control and safety in England. The proposed reforms are designed to improve building and fire safety with the aim of ensuring that residents will be safer in their homes. Whilst the proposals include a new Building Safety Regulator, new Dutyholder responsibilities, a Gateway system for approving design, construction and occupation and establishes the role of a legally responsible Accountable Person, the implications for the management and physical improvement of our existing buildings is going to be far reaching.

2.10 The final report of the expert group on structure of guidance to the building regulations was published in April 2020 and considered the structure of the current guidance that supports the regulations and it identified high level recommendations for the Government to consider.

INFLATION

2.11 The Office for Budget Responsibility (OBR) in its July 2020 report has CPI materially lower than their March forecast. The drop from 1.7% in the first quarter of 2020 to as low as 0.2% in the second quarter is partly driven by Ofgem lowering its energy price cap in April, by the recent falls in oil prices, VAT reductions, and the "eat out to help out scheme". Inflation falls close to zero in the second half of 2020, when CPI drives our rental income growth, but is forecast to rise next year as the effect of lower energy prices drops out of the annual figures. CPI inflation returns to the 2% target around the end of 2022.

2.12 The UK is on track to record the largest decline in annual GDP for 300 years, with output predicted to fall by more than 10% in 2020. This would deliver an unprecedented peacetime rise in borrowing this year to between 13% and 21% of GDP, potentially lifting debt above 100% of GDP. As the economy recovers, the budget deficit falls back. But public debt remains elevated, and likely to continue to rise.

2.13 The same OBR report also assumes that employment was around 5 per cent lower in the second quarter (ie April – June 2020) than predicted in the March forecast – a shortfall of around 1.8 million people and consistent with an unemployment rate of around 9% (though many are likely initially to be recorded as 'inactive' in official statistics). Total hours worked fell much faster and are 29% lower than forecast in March, thanks largely to furloughing. This is concentrated among those on lower pay, so compositional effects temporarily raise productivity. The future prospects for employment and unemployment will depend heavily on what happens to furloughed workers once the Coronavirus Job Retention Scheme is closed. The OBR make broad assumptions about the proportion that subsequently move into unemployment rather than back to work of between 10% and 20%. This means that unemployment continues to rise and employment to fall beyond the second quarter, despite output recovering somewhat. The unemployment rate could peak at 10%–13% in the first quarter of 2021.

HOUSING MARKET

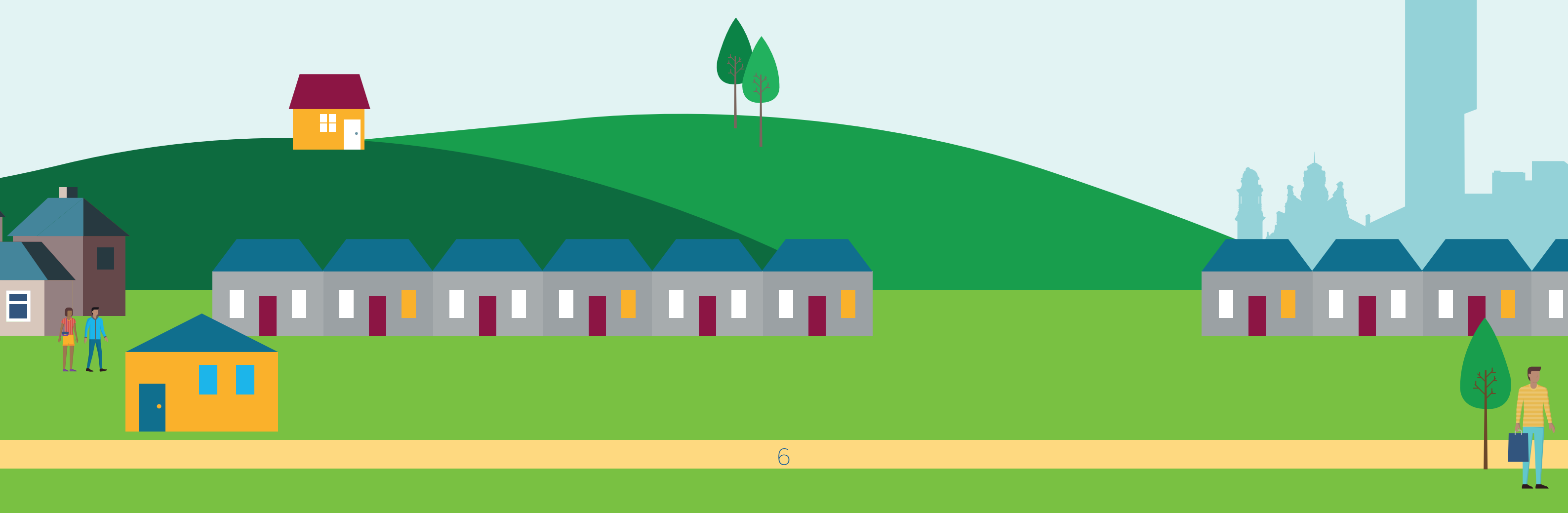
2.14 As at March 2020 the average house price in the UK was £231,855 and nationally property prises have risen by 2.1% compared to the previous year (Since Covid-19 the House Price Index has been suspended). In the North West the average house price was £166,202 an increase of 3.4% compared to the previous year and for Yorkshire and the Humber £159,208, a decrease of 1.0% compared to the previous year. The average price of a new build house in the North West (at January 2020) was £232,775 which is an annual growth of 6.9%. In Yorkshire and the Humber the average price of a new build house rose 8.1% last year to £219,013.

2.15 The OBR report provides some insight which we currently get from the HPI, which states that residential property transactions fell very sharply in April and May, to around half the level seen between January and March. Restrictions on activities relating to house purchases were eased on 13 May, and they assume that transactions will rebound over the second half of the year and into 2021. This leaves transactions in 2020 around 40 per cent below the March forecast.

2.16 A recent BBC report stated that according to Nationwide, house prices had their highest monthly rise for more than 16 years in August, but that forecasters are expecting house prices to drop again when the impact is felt on potential job losses.

2.17 The OBR report also includes revised projections on house prices. In the upside scenario, house prices recover relatively quickly and return to the level in the March forecast and about 10% lower in the downside.

2.18 Clearly, these potential forecasts will need to be carefully monitored as it is difficult to what effect the Coronavirus pandemic will ultimately have on house prices and the housing market more generally either in the short or longer term.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

2.19 The Group is fully compliant with its Code of Governance, which is an enhanced version of the most recent NHF Code and is actively engaged in the development of a new code being drawn up by the NHF. Great Places also successfully completed the merger with Equity Housing Group and has welcomed two new board members, Grenville Page and Mervyn Jones which strengthens the governance at Great Places and provides succession planning for board members soon to end their terms of office.

2.20 Great Places has launched a Community Resilience Fund to support customers in our neighbourhoods that have been affected by the recent pandemic. It will provide financial support to charities, community groups and social enterprises to implement their COVID-19 recovery strategies and will enable them to become more resilient to future economic setbacks. The aim is to direct our funding and resources into our neighbourhoods, where there will be a positive impact to help our customers and communities.

2.21 Great Places has made continued progress in its commitment to ensuring the carbon literacy of our colleagues. We have ensured that 80% of colleagues have completed the in-house Carbon Literacy Training and are on course to become a Carbon Literacy “Project Platinum” organisation by the end of the financial year. Great Places is now a leading provider of this training to external businesses too and have adapted during the pandemic to providing this learning virtually.

ACCOUNTING AND TREASURY

2.22 There are no known major accounting changes expected to impact the financial year end March 2021 however the accounts will include the acquisition of Equity Housing Group, and the resulting fair value gain on acquisition. An estimate of this gain has not been included in the plan, we have simply added together the two balance sheets. In reality, the Transfer of Engagements will be accounted for as an acquisition of the assets and liabilities of Equity at their fair value at nil consideration, resulting in a fair value gain in the account of Great Places Housing Association. Whilst we have instructed valuers to undertake this exercise the output has not yet been produced so modelling that in the business plan has not been done at this stage.

2.23 The negotiations as part of gaining funders’ consent to transfer the engagements of Equity resulted in revised covenants and funding costs. All additional interest costs are included within this plan and the calculations to produce the charts have been amended to reflect these revised covenants.

2.24. It is worth noting that the current basis for calculating interest rates is LIBOR (London Interbank Offer Rate) which is to be replaced by SONIA (Sterling Overnight Index Average) as the benchmark for sterling variable rate loans and derivatives by the end of 2021. The change is because LIBOR will stop being published as it has been open to misconduct and includes a measure of bank credit risk, whereas SONIA is a better approximation of a risk free rate. These changes will require further revisions to loan documentation which should involve no transfer of value between the parties (ie should be cost neutral at the point of the switch). We are in active discussions with our funders regarding these changes.

3

Main changes since last year and changes to the plan approved in April 2020

3.1 Aside from the inclusion of Equity Housing Group's activities and some minor changes in the underlying assumptions, the main change since the 2019 approved plan is the development aspiration which was included in the Business Case to develop 11,000 homes over the next 10 years (the previous individual plans included c9,600 new homes), demonstrating the increased capacity following the merger.

3.2 Our ambition to deliver 11,000 new homes is achievable with the continued support from Homes England, and would see Great Places own or manage around 30,000 homes by the end of year 10, have a turnover of close to £275m, surplus of around £35m and housing assets at a cost of almost £3.3bn.

3.3 The Equity merger business case savings and costs have been included in the base case plan and where estimates have been firmed up e.g. interest payable and write off of loan fees, these have been factored in.

3.4 The main changes since the plan was originally approved by Board in April 2020 include:

» Re-profile of development activities and expenditure post lockdown and going forward to reflect the impact of construction works implementing covid safe working practices;

» Resultant slip of property sales;

» Additional costs to reflect revised working practices, social distancing and personal protective equipment;

» Higher arrears as many of our tenants are impacted by the affect on employment and moving to Universal Credit; and

» Delay in the commencement of the 2020/21 investment programme, with the catch up happening over a period of two to three years.

4

Revised Business Plan – The new base case

4.1 The base case business plan provides assurance that we can deliver on our Corporate Plan ambitions within the Board's financial risk appetite. This plan sets out the long-term financial plan from 2020/21 and consolidates all entities within the Group, including the activities of the former Equity Housing Group. The plan meets all covenants and the golden rules for the full 30 years.

4.2 Appendix A details the assumptions used to create this business plan. Appendix B details the key outputs of the plan and graphs representing performance against golden rules and covenants, and analysis which provides comparisons to last year's business plan.

4.3 The base case also delivers 454 new homes in year one and a total of 4,200 by year five, of which 2,390 are committed via current Homes England programmes.

4.4. The average headline social housing cost per unit has increased 12% over the past three years (RSH VFM report). The table overleaf depicts the Regulator's VfM metrics based on this plan for 2020/2021 with a comparison to previous years and comparing Great Places to the sector median.

RSH VFM metrics	Sector Median 2018/19	Great Places Actual 2018/19	Great Places Actual 2019/20	Great Places budget 2020/21
Operating Margin – overall	25.80%	30.00%	28.88%	27.98%
Operating Margin – Social Housing Lettings	29.20%	34.80%	34.69%	31.86%
EBITDA MRI Interest cover	184%	146%	150%	144%
New Supply: Units developed as % of units owned	1.50%	1.30%	1.37%	1.78%
Gearing	43.40%	46.40%	46.38%	43.85%
% Reinvestment	6.20%	3.40%	5.22%	8.86%
Return on capital employed (ROCE)	3.80%	3.10%	3.57%	2.81%
Headline social housing cost per unit	£3.69K	£3.09K	£3.25K	£2.98K

4.5 Operating Margin – Social Housing Lettings has been adversely impacted by the inclusion of Equity's activities which have contributed an additional £20m income in 2020/21, with additional £16.6m expenditure (16.9% margin). Great Places always knew there would be a short term, temporary deterioration in some of the metrics which will improve as the integration programme delivers the expected efficiencies.

4.6 The following table shows the VFM metrics for the next five years demonstrating the position improving across most of the measures.

RSH VFM metrics (year ended 31st March)	2021	2022	2023	2024	2025
Operating Margin – overall	27.98%	27.92%	29.71%	31.37%	32.10%
Operating Margin – Social Housing Lettings	31.86%	33.33%	36.87%	37.14%	37.88%
EBITDA MRI Interest cover	144%	149%	168%	171%	155%
New Supply: Units developed as % of units owned	1.78%	3.88%	3.46%	3.16%	4.15%
Gearing	43.85%	46.07%	47.15%	48.79%	51.10%
% Reinvestment	8.86%	12.87%	10.86%	12.60%	13.98%
Return on capital employed (ROCE)	2.81%	3.05%	3.29%	3.38%	3.32%
Headline social housing cost per unit (£000s)	£2.98K	£3.04K	£2.80K	£2.85K	£2.93K

4.7 Headroom against the golden rules are shown in the following table:

	Baseline Business Plan			
	Golden Rule	Worst Result	When	Headroom
Gearing	55.0%	48.2%	Year 9	£210.5m
EBITDA MRI	125.0%	148.0%	Year 1	£7,000.0k
Operating margin	25.0%	29.4%	Year 2	£7,278.1k

» Gearing in year one is 40.1% and slowly rises during the first nine years of the plan to 48.2% before slowly falling though to the end of the plan. The tightest point at year nine has ample headroom of an additional £211m of debt.

» EBITDA MRI Interest cover is at its lowest in year one, and the budget provides £7.0m headroom, which is approximately a 17% adverse variance in operating surplus. It does improve from the tightest point at year one of 148.0% until year four when it reaches 174.4% before reducing again. In year one this is impacted by the write off loan fees applying the "substantial modification" accounting rules following the Equity merger funding negotiations (£1.1m), without which the year one EBITDA MRI would be 153.5%.

» Operating margin is at its lowest in year two, purely because of the improvement in the year one margin as a result of deferring some of the lower margin property sales. The headroom against the golden rule of 25% is £6.7m in year one and £7.3m in year two. It does improve from that tightest point at year two throughout the course of the plan.

4.8 The table below shows a summary of the total capital expenditure planned for 2020/21 along with the sources of funding for this spend.

Area of spend	Budget (£'000)	Source of funds	Forecast (£000s)
Development of social housing properties	99,306	Drawdown of existing loan facilities and cash generated from operating activities	75,911
Development of outright sales properties	15,239	Grant	22,790
Capitalised major repairs	10,261	Market sales	8,149
Offices refurbishments	1,540	Staircasing and other sales	10,532
IT Capex	1,095	1st tranche sales	10,060
Total	127,442	Total	127,442

4.9 The table below shows the facilities that are available to the Group (this is not a complete loan facility table, it just shows loans which are not fully drawn). Of the £230.0m available, £199.7m is already secured and can readily be drawn. The revised Treasury Strategy which underpins this business plan was approved by the Board in September.

Lender	Facility £000s	Drawn Amount £000s	Undrawn £000s	Secured
Bond (exc. premium)	345,000	275,000	70,000	70,000
Santander RCF	43,830	11,000	32,830	32,830
NatWest GPHG loan	48,000	10,000	38,000	38,000
NatWest GPHG RCF	30,000	0	30,000	30,000
NatWest GPHA RCF	55,000	5,782	49,218	27,617
Warrington BC	18,951	8,951	10,000	1,231
Grand Total	540,781	310,733	230,048	199,678

5

Golden Rules

5.1. The Group has adopted "Golden Rules" which set thresholds above or below which the Group will ensure it remains throughout its business plan. The Golden Rules are set at levels that are more difficult than the equivalent funding covenant, to ensure headroom is maintained at all times. These current Golden Rules were reviewed and reset by Board in April 2020 and are set out in the table below:

New Golden Rule	Description
Operating margin golden rule	Operating margin before interest to be a minimum of 25% and targeted to grow towards 40%
EBITDA (MRI) Interest Cover	EBITDA (MRI) Interest cover should not fall below 125% (covenants range from 105% to 110%)
Gearing golden rule	Gearing should not increase above 55% (covenant 65%)
Proportion of debt	In line with approved Treasury Strategy (currently a minimum 75% fixed)

5.2. As the golden rules were reviewed and revised in April 2020 there is no proposal to make any further changes as a result of this revised business plan.

5.3. The "Early Warning Monitor" is a tool to alert the Board to any potential changes in the operating environment which could impact performance against the Golden Rules. The content and triggers will continue to be reviewed, updated on a monthly basis and reported to Board via the Executive Director of Finance report.

Appendices

6

APPENDIX A – BASE CASE ASSUMPTIONS

As part of the Business planning process and a review of external sources of forecasts, there have been a number of changes to underlying assumptions. In the main, a reduction in funding costs to reflect the lower base rate and a lowering of CPI for the rental income growth, while keeping the absolute increases for costs.

Assumption	Financial year 2019/20	Budget Yr1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25	Years 6-30 2025/26+
3 month LIBOR	0.81%	Rising to 1.50%	Rising to 2.10%	Rising to 2.70%	Rising to 3.30%	Rising to 3.85%	Rising to 4.35%
Margin on short term debt	Per facilities	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%
All in rate, variable rate debt	Per facilities	Rising to 2.9%	Rising to 3.5%	Rising to 4.1%	Rising to 4.7%	Rising to 5.25%	Rising to 5.75%
30 year gilt rate	2.00%	2.00%	2.40%	2.80%	2.95%	3.35%	Rising to 3.65%
Spread on new long term debt	1.70%	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%
Future fixed rate debt	3.70%	3.60%	4.00%	4.40%	4.55%	4.95%	Rising to 5.25%
Interest rates – receivable	1.13%	Rising to 1.00%	Rising to 1.50%	Rising to 2.00%	Rising to 2.50%	Rising to 2.75%	2.85%
CPI	2.50%	0.50%	1.00%	1.50%	2.00%	2.00%	2.00%
RPI	3.75%	1.50%	2.00%	2.50%	3.00%	3.00%	3.00%
Earnings inflation	CPI+1.50%	CPI+2.50%	CPI+2.00%	CPI+1.70%	CPI+1.50%	CPI+1.50%	CPI+1.50%
General needs rents	-1.00%	CPI+1.00%	CPI+1.00%	CPI+1.00%	CPI+1.00%	CPI+1.00%	CPI
Universal Credit customers	3,641	6,291	8,716	100% potential UC claimants	100% potential UC claimants	100% potential UC claimants	100% potential UC claimants
Bad debts	Rising to 1.40%	Rising to 1.50%	Rising to 2.00%	Rising to 2.50%	Rising to 3.00%	3.00%	3.00%
Repairs inflation	CPI+1.00%	CPI+2.00%	CPI+1.50%	CPI+1.20%	CPI+1.00%	CPI+0.50%	CPI+0.50%
Major repairs inflation	CPI+1.50%	CPI+2.50%	CPI+2.00%	CPI+2.00%	CPI+1.00%	CPI+0.50%	CPI+0.50%
Construction price inflation	CPI+2.00%	CPI+3.30%	CPI+3.00%	CPI+3.00%	CPI+2.50%	CPI+1.00%	CPI+1.00%
Land price inflation	CPI+2.00%	CPI+2.00%	CPI+2.00%	CPI+2.00%	CPI+2.00%	CPI+1.50%	CPI+1.50%
Property price inflation	CPI+0.50%	CPI+1.00%	CPI+1.00%	CPI+1.00%	CPI+1.00%	CPI+1.00%	CPI+1.00%
Staircasing sales	71	71	71	71	71	71	71
Voluntary sales, RTB & RTA, repossessions	52	78	53	53	53	53	53

The development pipeline included in the plan has changed slightly to take into account programme delivery over the last few months and the expected impact of Covid in the short to medium term.

Year ending	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025	31 March 2026	2027-30 (per annum)	10-year Total
Committed homes available for Social Rent	35	53	80	10				178
Additional future development					111	121	121	716
Total new homes Social Rent	35	53	80	10	111	121	121	894
Committed homes available for Affordable Rent	219	514	212	73				1,018
Future homes available for Affordable Rent			161	335	505	665	665	4,326
Additional future development – S106					75	75	75	450
Total new homes Affordable Rent	219	514	373	408	580	740	740	5,794
Committed homes for Low Cost Home Ownership	137	307	248	48				740
Future new homes for Low Cost Home Ownership			96	293	268	333	329	2,306
Additional future development – S106					75	75	75	358
Total new homes Low Cost Home Ownership	137	307	344	341	343	408	404	3,496
Supported New Homes		8	12					20
Cube	63	75	78	80	80	100	80	796
Total other development	63	83	90	80	100	80	80	816
TOTAL NEW HOMES	**454**	**957**	**887**	**839**	**1,114**	**1,369**	**1,345**	**11,000**

Looking beyond the current programmes, after 2021/22 we will look to utilise the additional capacity created by coming together with Equity to deliver our pledge to build 11,000 homes over the next 10 years. The assumption is that we will build approximately 700 affordable rent homes, 120 social rent homes, 400 shared ownership and 80 outright sales, totalling an annual programme of around 1,350 homes

After 2030, development is assumed to be an ongoing programme of 500 homes per year, comprising of around 200 shared ownership properties and 300 rented properties.

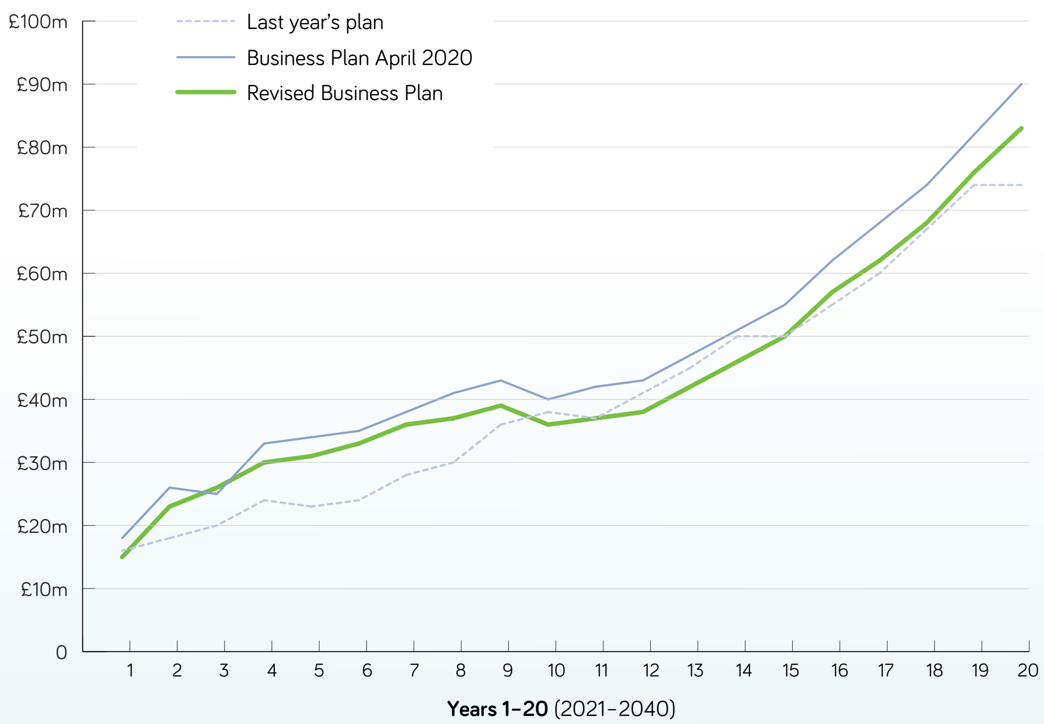
APPENDIX B – BASE CASE OUTCOMES: CHARTS

This section shows the business plan graphs compared with last year's plan and the approved business plan from April 2020, with comparison to the Group's golden rules.

GRAPH 1 – SURPLUS BEFORE TAX

Graph 1 shows the profile of surplus generated over the life of the plan. The trend is similar to trends that Great Places has seen over the last five years' plans, showing how we have successfully protected and maintained the surplus despite the rent reduction.

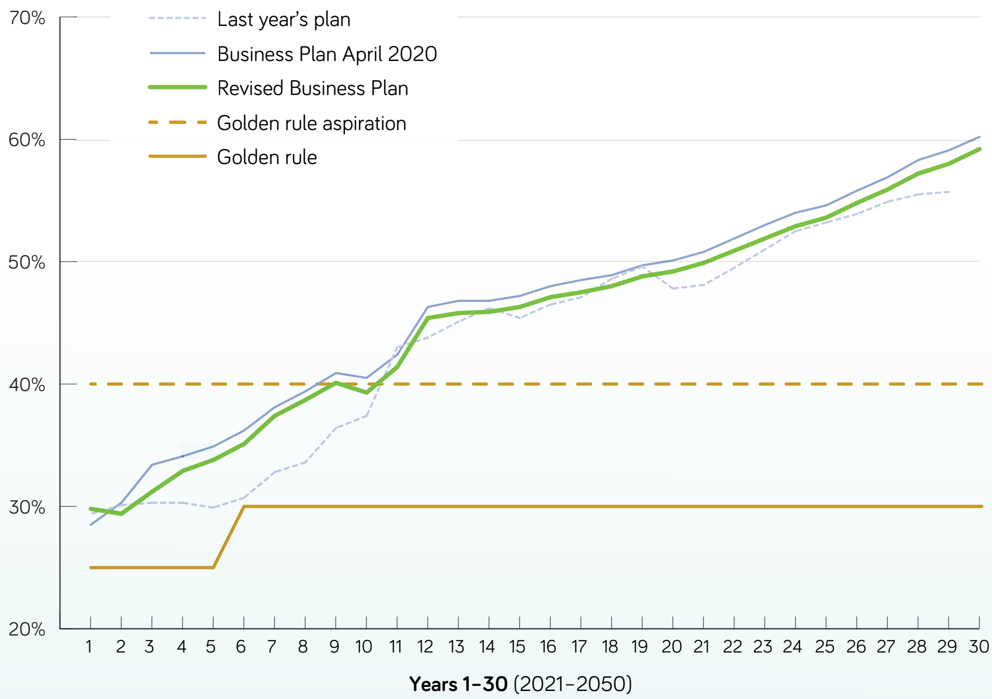
The annual surplus achieved in this plan (green line) grows steadily from £15m in 2020/21 to over £200m by the end of the plan. There is a £3m deterioration in surplus each year when compared to the business plan approved in April. In the earlier years, this is due to the re-profiling of property sales, but in later years it is as a result of lost rental income caused by a lower CPI inflation in the first couple of years.



GRAPH 2 – OPERATING MARGIN

Graph 2 shows the Group's operating margin (surplus before interest as a proportion of turnover – effectively a measure of profitability). The importance of maintaining the operating margin is demonstrated by the adoption of this measure as one of the golden rules, with a revised minimum acceptable level of 25% for 5 years to move to 30% after integration, and a target to move towards 40% in the longer term. The margin has increased in year one, compared to the April 2020 business plan as a result of the re-profiling of property sales, which generate a lower margin then social housing activities. As those sales are only re-profiled into years two and three, there is a corresponding deterioration in operating margin in those years, and then tracks lower for the same reasons as surplus mentioned above.

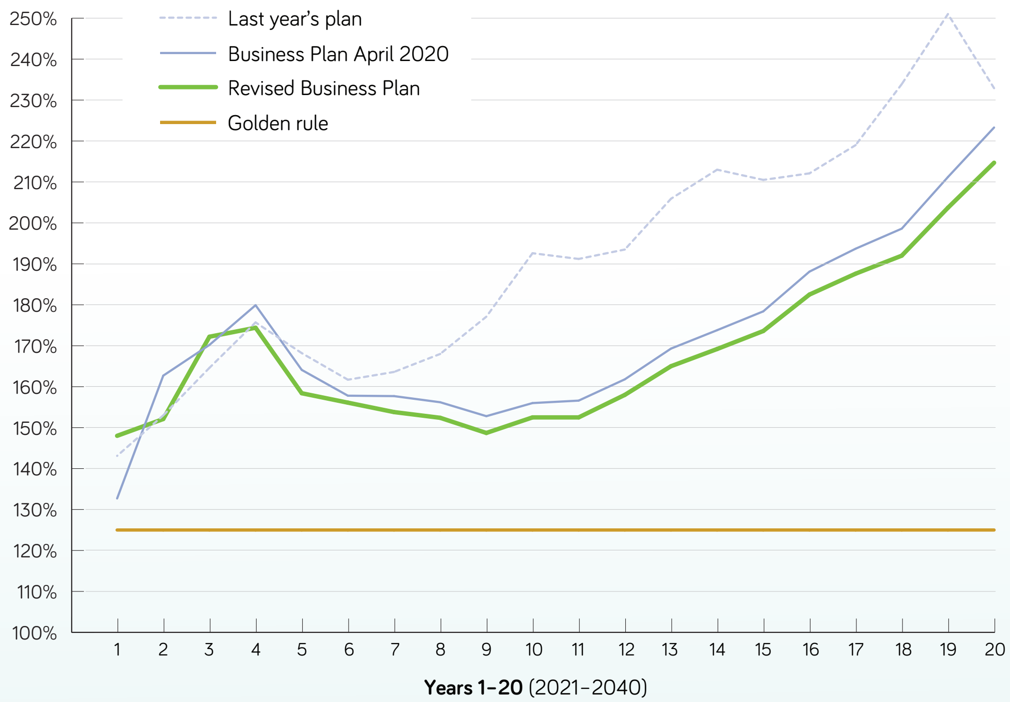
From year 10 there is a sharp increase in margin, depicting the end of the Cube business plan, where a higher proportion of "relatively" low margin (but of course very profitable) open market sales undertaken dilutes the Group's operating margin in the earlier years, with operating margin approaching 60% by the end of the plan.



GRAPH 3 – EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (MAJOR REPAIRS INCLUDED) INTEREST COVER

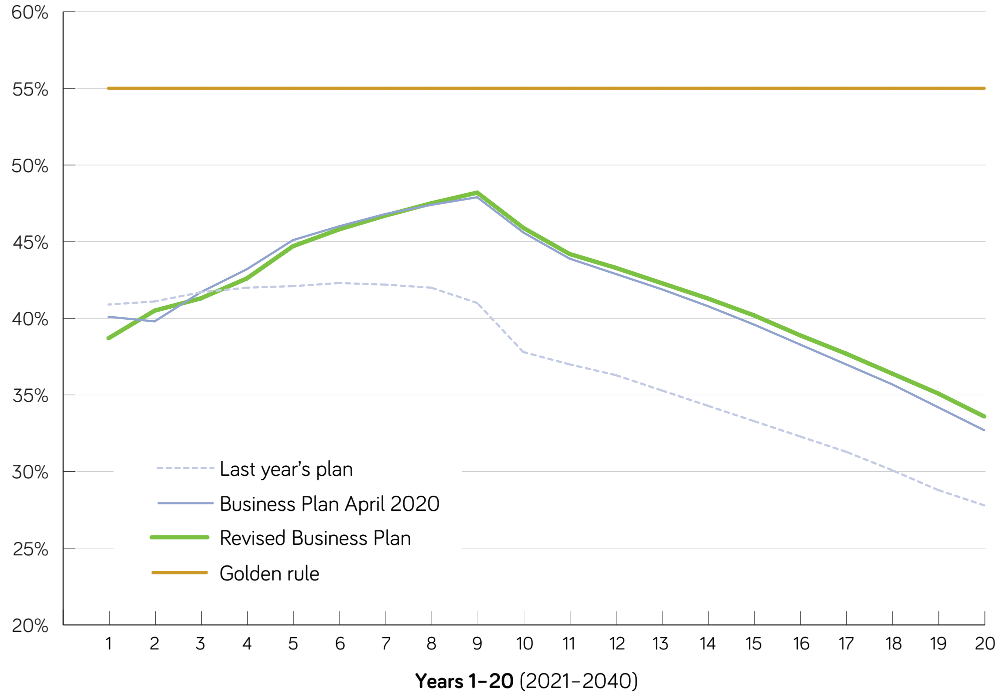
EBITDA MRI interest cover is the new covenant adopted by funders as part of the negotiation process for funders' consent to merge with Equity and is now commonly used in new loan agreements. It differs from the previous interest cover covenant in that all capitalised major repairs are included in the calculation. The tightest EBITDA MRI interest cover covenant is 110%, therefore the golden rule has been set at 15% higher providing approximately £7.0m headroom in operating costs, or £5.0m in interest payable.

The April 2020 plan showed the effects of the increase in development particularly evident in years 5-10 along with the higher interest costs overall due to more debt to fund that additional development. This revised plan, sees an improvement operating margin in year one, with re-profiling of spend into years two and three, then tracks around 4% lower for the same reasons as surplus mentioned above.



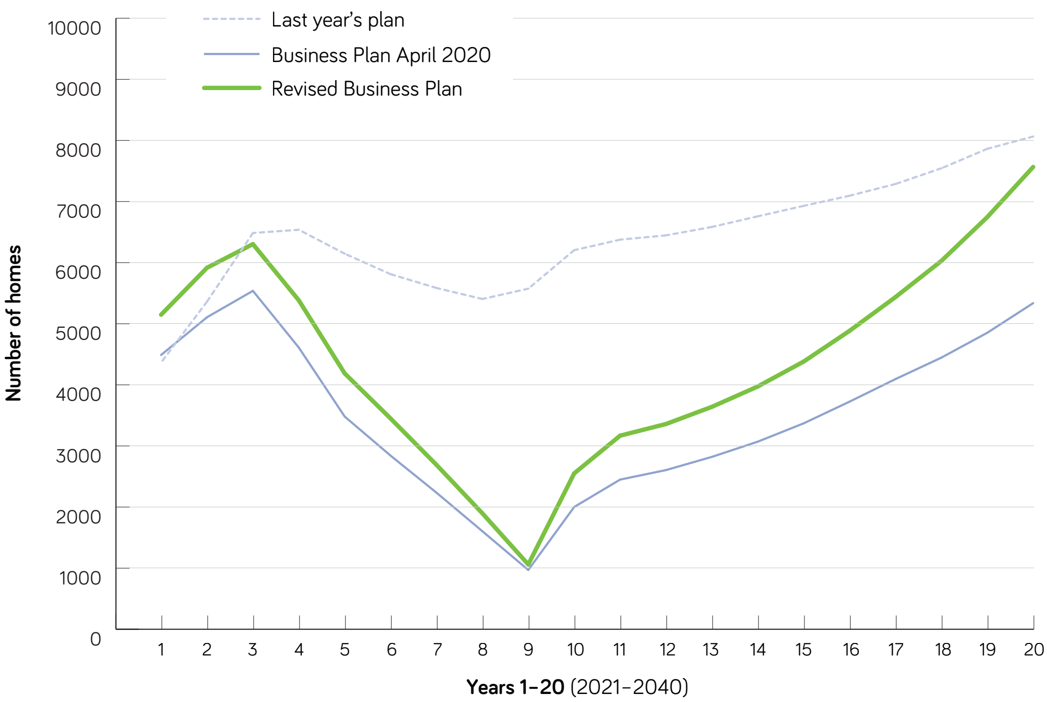
GRAPH 4 – GEARING

Graph 4 compares the Group's debt net of cash to the asset base (measured as housing properties at cost) and has a funding covenant maximum of 65%, and a golden rule set at 55%. The plan remains comfortably better (lower) than the 55% golden rule.



GRAPH 5 – UNENCUMBERED ASSETS

Graph 5 shows how the business plan impacts on the unencumbered assets of the Group. The Group currently has just over 5,000 unencumbered properties and this rises for a couple of years as there is little requirement to charge properties over this period. We then see it steadily fall through to year nine as we hit the peak of new development to meet our 11,000 homes and 10 year ambition, with the associated new debt requirements from around October 2022. After year 10 development volumes reduce and the pool of unencumbered assets begins to increase. We will actively seek to "flatten" this "v-shaped" profile to avoid the year 9 low point which is a key constraint that is apparent in the stress tests that follow.



APPENDIX C – STRESS TESTING

Stress testing takes sensitivity analysis further by including multiple factors which could arise in certain shock events. The following stress tests have been modelled through the business plan.

STRESS TEST #1 – CORONAVIRUS PANDEMIC

The underlying Business Plan has the known effects of the pandemic, the initial lockdown measures and subsequent easing. This stress therefore considers a second wave of Coronavirus and further local and national lockdowns. This shock event sees sales of housing properties across all tenures delayed by three months, with a corresponding delay in the development programme, major repairs, planned works and the small proportion of day to day repairs which are subcontracted out. The extended delay in the development programme also sees a ceasing of capitalised interest (in line with accounting standards). We also modelled through a fall in sales values on committed schemes of 10% across all tenures with no bounce back.

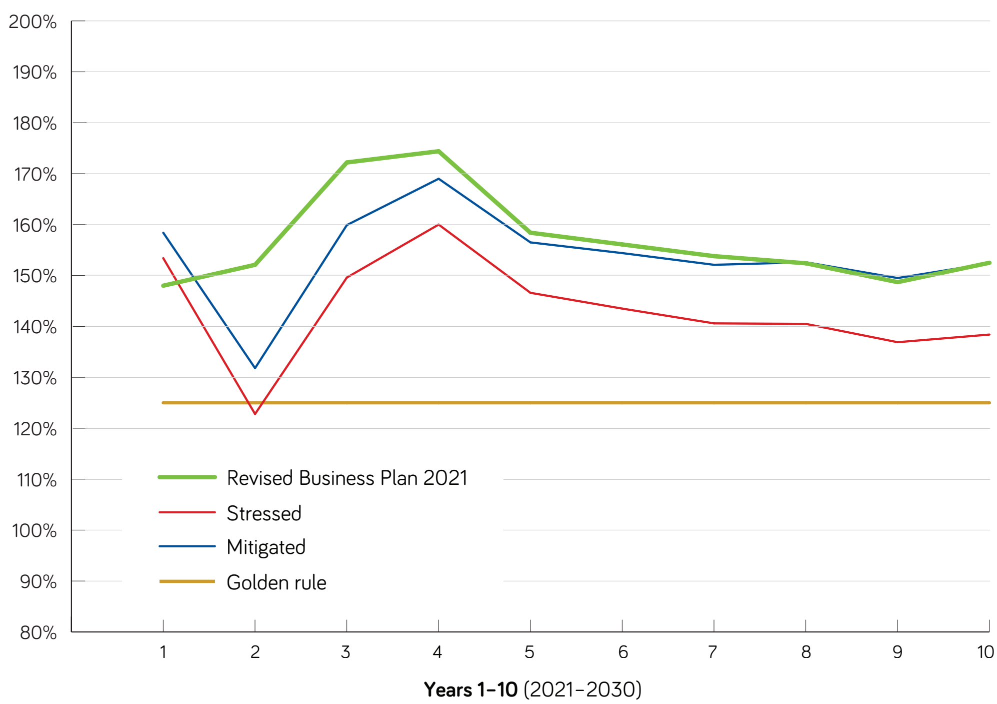
We have assumed another spike in Universal Credit claimants of 1,500 (from the current 4,700) and their arrears grow to £800 over a 6-8 week period. We modelled through increasing unemployment as the Coronavirus Job Retention Scheme comes to an end and see arrears for self-payers increase by £250k for three months with a recovery over two years. Void loss across general needs properties increase from 0.5% to 1.5% for two years and bad debts increase to 3% immediately and reach 5% by the end of year two before reverting to 3% from year four.

We have assumed the integration programme sees delays of six months thereby delaying the savings that could be achieved, coupled with additional management costs of £500k for increases in resources, and additional repairs costs of £1m to resource non-essential repairs and disrepairs to catch up with the double effect of a backlog. Lastly we have assumed an increase in pension deficit costs of £500k from March 2022, after the next triennial valuation.

Mitigation strategies which could be adopted to recover from this event include:

» Delaying the planned and investment programme by a further six months;
» Slip the commencement of all market sales future activity by six months;
» Accelerate sales of housing properties by reducing sales values (to generate cash);

The business plan will be able to withstand a second wave of Coronavirus with the pinch point at year two being EBITDA MRI cover where the golden rule is temporarily breached, but with no breach in covenant. The graph overleaf show the effect of this and also show the recovery with mitigations in place. Even with the mitigations, the total number of homes delivered over the ten year period is not impacted.



STRESS TEST #2 – PROPERTY MARKET COLLAPSE

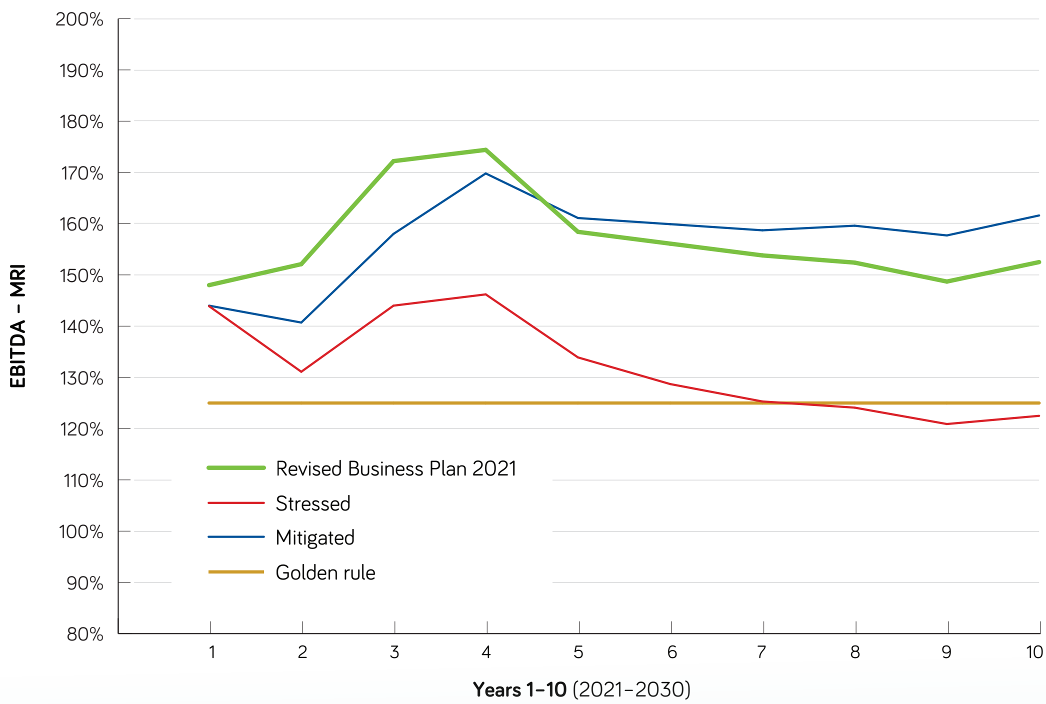
This shock event sees a collapse of the property market and references our Corporate risk around failure of the sales programme. There is the potential for mortgage availability to be affected, and an increase in loan-to-value requirements from mortgage providers which would force prices down. The following potential outcomes will be modelled through the business plan:

- 20% fall in property values, followed by no capital growth in years 2-3 before reverting to the original CPI+1% assumption from year 4;
- Security values assumed to fall by 5% in year one as Existing Use Values are likely to remain largely unaffected; and
- Sales periods for committed schemes lengthened, to sell over a three year period for both outright sales through Cube and the shared ownership first tranche sales.

The impact to the business plan sees a reduction in overall surplus from year one and a breach in EBITDA MRI interest cover by year nine. The impact to security exhaustion is that unencumbered assets are utilised in full by year nine.

Mitigations used in this scenario are future development being delayed by six months. A potential offsetting consequence of the stress event could be a 10% total development cost reduction in year one: If the housing market does decline, housebuilders will cut production which means less work for key trades, which should feed through to a reduction in build costs. We would also expect to see a corresponding reduction in major repairs costs (£1m), as well as a small reduction in repairs (£0.5m). Non committed development is still assumed to create surpluses as we would not enter into new development schemes which were not financially viable.

The following graphs show the effect of this and also show the recovery with mitigations in place. Even with the mitigations, the total number of homes delivered over the ten year period is not impacted.



STRESS TEST #3 – ADVERSE ECONOMIC SCENARIO

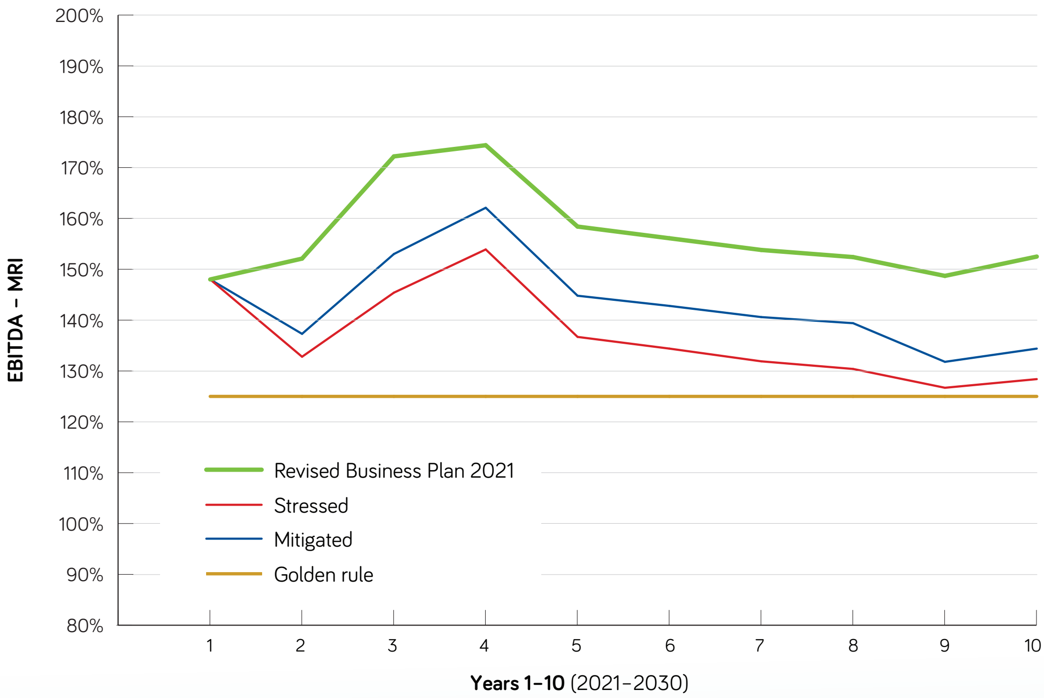
This shock event sees an economic collapse and references our Corporate risk around Treasury and funding. The following potential outcomes have been modelled through the business plan:

» CPI at 0.5% for rental income growth (but at 3.5% for costs) over a two year period and then converge back to CPI at 2.0% from year four to 30;
» RPI reduced to 1.5% to maintain the wedge between RPI and CPI;
» A short term spike in LIBOR rising to 4.75% for two years (ie. years two and three);
» Increased cost pressures on construction labour and materials see building and major repair costs rise by CPI+5% for a four year period before falling back to normal levels; and
» Inability to constrain earnings to the CPI+1% base assumption.

In this shock event unencumbered assets are completely utilised by year nine, due to reduced cash rent receipts and much higher level of cash spent on developing and investing in homes.

In the mitigation plan, there is a reduction in the future development programme costs of 10% as costs are so high, but the expectation is that the scheme would stack up financially before being approved. Other reductions in repairs including reducing some of the discretionary major repairs budgets on things like carbon neutrality by around £1.5m in the earlier years. Management costs around discretionary spend are also assumed to reduce at a modest £0.5m along with the deferral of a number of infrastructure and innovation projects. The mitigations still leave a security exhaustion problem in year nine of a few hundred properties, but this gap could be plugged by utilising the revolving credit facilities if needed.

There is an overall reduction of 825 new homes that can be delivered over the ten year Corporate ambition horizon.



STRESS TEST #4 – CHANGE IN GOVERNMENT POLICY

This shock event sees a change in Government policy around rents, continuing pursuit of the Right to Shared Ownership programme and of Voluntary Right to Buy, further adverse changes to the welfare benefit system, and reduction in the availability of grants. It references (amongst others) our Corporate risk around welfare reform.

In this scenario we have modelled the following:

Rents

- General needs rent freeze in years two to five, increase by CPI thereafter;
- General needs bad debts at 3% in years one to 30 as customers have reduced welfare benefits;
- Arrears increase by an additional 10% p.a. in those years; and
- Supported Housing rent freeze in year two to five.

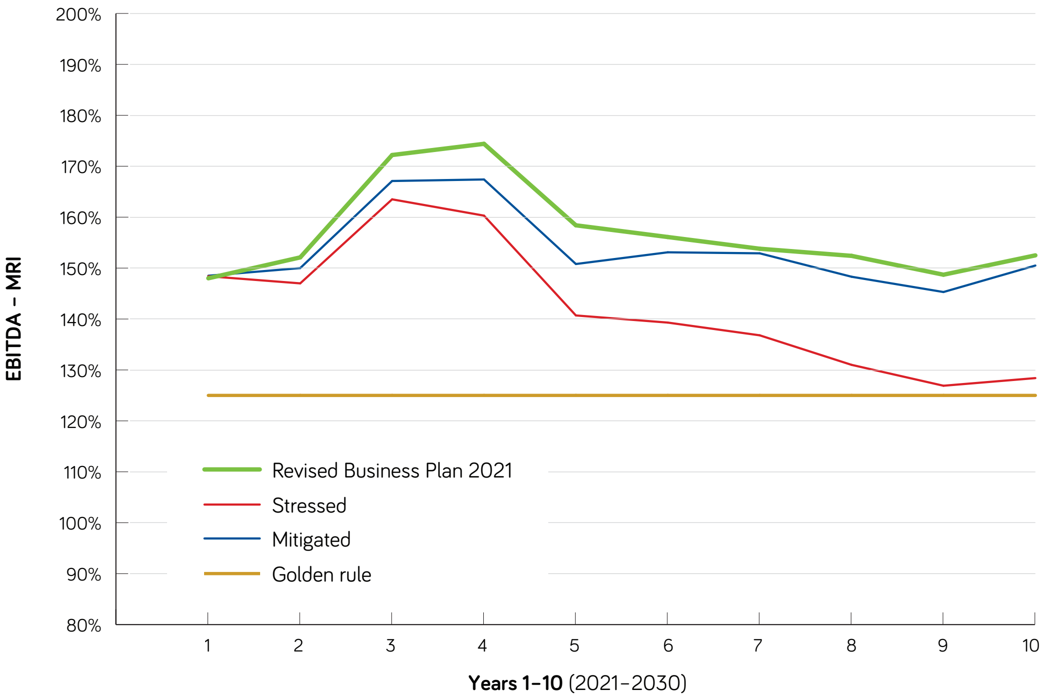
Sales and development

- Limited grant availability from Homes England after the Strategic Partnership ends, but the development programme continues so we have assumed rented grant levels at half the current levels;
- Voluntary Right to Buy, with 100 general needs properties being sold p.a. with full right to buy discount unfunded, in years two to seven; and
- Conversion of some assured properties to Right to Shared Ownership, from 10% ownership in tranches of minimum 1% and with the assumption that Great Places would continue to have the repairs obligation.

In this shock event security exhaustion occurs in year nine. Surplus, EBITDA MRI Interest Cover and Operating Margin deteriorate over time with EBITDA Interest Cover almost breaching the golden rule in year nine.

In the mitigation plan, we assume a significant reduction in future rented developments, but that shared ownership continues at the baseline levels as they continue to create surpluses and are likely to still receive grant funding as they meet the home ownership Government aspiration. By the end of year ten we have approximately 1,200 fewer homes than the base plan as a result of this reduction in and the increased number of voluntary sales. We also assume a reduction in building contractor costs and land costs: with less affordable house building taking place the demand would fall, and the costs too.

Other cost savings include reduced discretionary management costs from year two of around £0.5m, being a reduction in non mandatory training, away days and similar activities. We also assumed a smaller development team from year three matching the smaller development programme.



STRESS TEST #5 – BUILDING SAFETY AND MAKING OUR HOMES CARBON NEUTRAL

This is a stress test which attempts to quantify the impacts to the business plan of additional works to make our buildings safe, and achieve zero-carbon status potentially retrofitting all of our homes and carbon neutral new developments, by 2028, in line with the Greater Manchester ambitions. This stress references our Corporate risk around stock condition and effective asset management and the stress assumes there is no additional funding for this work.

For this test we have assumed an additional £1m major repair spend every year (an additional £20m throughout the life of the plan as we currently have £1m per annum in the first 10 years), which equates to approximately £1,000 per unit, as well as increasing the cost of future rented development by £25k per unit. These are first stab estimates until further work is undertaken to understand the full costed impact of building safety works and making our homes carbon neutral.

Although we see a small deterioration across all the metrics there are no breaches to Golden Rules. The impact is on security exhaustion which occurs in year nine due to the rise in development costs.

The mitigation plan for this would be to attempt to secure additional funding for carbon neutral homes either via the potential Social Housing Decarbonisation Fund, additional Homes England grant or other Government "eco" grants which might become available, or in certain cases, divest of homes which are unable to reach the higher SAP rating of C or unable to be made safe, in line with building regulations.

Ultimately, the Executive team would not sign off on a development scheme which didn't meet our financial appraisal parameters, so we would be likely to decide to reduce future developments units by 20%, starting in year 2 (all tenure types). Other cost savings include reduced management costs from year two of around £0.5m, being a reduction in non mandatory training, away days and similar activities. We also assumed a smaller development team from year three.

MITIGATIONS

Each stress test has had a number of specific mitigation strategies applied to demonstrate recovery from the stress event. Great Places has a number of permanent controls in place which would aid our response to any potential shock scenario as follows:

- Minimum cash buffer of £15m (temporarily increased to £20m due to the pandemic);
- Minimum 75% fixed rate debt;
- Asset and liability register; and
- Early warning monitor.

A new permanent mitigation has been added to have a robust contract management framework to help mitigate against Counterparty risk.

There are many actions which Board can take to respond to a stress event and a mitigations log is kept under review. Before enacting any of these options, a full appraisal would be undertaken to understand the scale of potential savings over the business plan period and any negative impacts or up front costs with particular reference to how the mitigation might affect the golden rules, cash, or more importantly reputation.

There is also a schedule of other more operational mitigations and the full register has another 30 or so actions, each allocated to individual Directors or Executive Directors. Overall the majority of cash benefit takes 12–18 months to realise while the majority of I&E benefits are realisable in 3-6 months.